

Testimony of

Peter Bakken
Blac-X Farms, Inc.
Garretson, SD

Committee on Agriculture
U.S. House of Representatives
Federal Farm Policy Field Hearing

Marshall, MN
July 22, 2006

Chairman Goodlatte, Ranking Member Peterson, Congressman Gutknecht and members of the Committee, thank you for the opportunity to speak to you today about current farm policy and the upcoming farm bill.

My name is Peter Bakken. I am third generation crop and cattle producer from Rock County, Minnesota. I currently serve as president of Rock County Farm Bureau, sit on the Beaver Creek Township board and on the board of directors for the Rock County Cattlemen's Association. Like other agriculture producers, I am well aware of the role the national farm policy and the farm bill plays in our livelihood. I am honored to have the opportunity to share my views with you today.

Many farmers throughout the U.S. will tell you that their ultimate agriculture policy vision would be a "level playing field" or a "chance to compete in open markets." As we look ahead in the 21st century, agriculture policy should reflect a world where our farmers and ranchers are allowed to compete in open markets without tariff barriers, without export subsidies, without currency manipulations and yes, without production-distorting domestic subsidies. American farmers and ranchers are willing to give up commodity loan payments, counter cyclical payments and the like IF we are able to remove other trade barriers.

Moving toward this goal is becoming more difficult every year as American farmers and some U.S. Congressmen feel that negotiated agreements are not being met and promises are not being kept. Each political failure is putting our delicate world trading system in jeopardy. We all know what is at stake and the potential economic catastrophe if we don't continue to move forward with meaningful discussions. But we must implement policies that will grow our markets. As markets grow, farm program costs decrease and farmers' incomes grow from the marketplace not the government.

However, bridging the gap between where we are now and where we want to be in the future will require time. The short-term reality is that we will continue to need income support, consistent with our international trade obligations. Part of the income support should be "counter-cyclical," and therefore would decline as opportunities for market growth are realized.

2002 Farm Bill

The 2002 Farm Bill is very popular with producers throughout the country. Continued support of the structure and funding for the 2002 Farm Bill is a high priority for farmers and ranchers. The 2002 Farm Bill provided a long-term commitment to U.S. producers and it would be wrong to shift policy before the expiration of the farm bill in 2007. The bill provides a safety net for producers, leverage for international trade negotiators and needed conservation program support.

Some have argued over the past three years that the 2002 Farm Bill was a "desertion" from Freedom to Farm (the 1996 Farm Bill). In fact, it builds on the successes of that bill. The 2002 bill retains the major philosophies of the 1996 Farm Bill: planting flexibility, continuation of loan rates and programs that allow farmers to take their planting signals from the marketplace

rather than from the government. Outdated set-asides and government-owned surpluses were not reinstated.

The 2002 Farm Bill provides a strong measure of progress on the environmental front. Improved environmental practices will benefit everyone through improved soil, water and air quality, and wildlife habitat.

The 2002 Farm Bill has not increased taxpayer cost. However, even if costs had risen, farm policy has traditionally addressed the goal of producing a safe, abundant, domestic food supply. We've paid for our dependence on foreign oil. Imagine if we had to depend on foreign countries for our food. Also, if consumers think they're getting a good deal by spending on average 9.5 percent of their disposable income on a nutritious, safe, quality food supply, then they should conclude it's a good policy to provide for a measure of stability in our food production system.

During the three years before passage of the 2002 Farm Bill, Congress had to provide ad hoc assistance due to low incomes in the agricultural sector. Such ad hoc relief provided needed assistance, but was a poor substitute for a long-term policy on which farmers, lenders and taxpayers could count. The counter-cyclical program implemented in the 2002 Farm Bill has helped reduce the need for disaster assistance funding dramatically.

Let me restate that the farm bill is clearly working. Unpredictable weather conditions and markets, uncertainties involved with international trade, the value of the dollar and variable input costs have produced turbulent and difficult times for agriculture. The farm bill helps American farmers and ranchers weather financial storms and it provides unprecedented funds for our nation's conservation needs. The nutritional needs of the poor, underprivileged, senior citizens and children are also funded through this law.

Next Generation of Farmers

As a third generation family farmer, I have seen first hand the importance of transitioning a farm to the next generation. I also experienced the difficulties related to that transition. The current farm bill and any future farm bills are going to be a determining factor in how easily future generations will be able to effectively and affordably enter into production agriculture.

Government support and its effect on land costs are often cited as a factor limiting new entry into agriculture. For crop production and those with grazing livestock, land is a critical input. Government payments accrue to the land both in terms of the price of the land, but also in terms of higher rental rates. However, rental rates are higher than might otherwise be suggested strictly by agricultural markets. Renting land and investing the "sweat equity" needed to produce the crop is one way many new producers have gotten into the business. Average net rent paid to non-operator landlords during 1995 to 1999 was 40 percent higher than that paid in 1985-1989, yet net cash receipts were up only 15 percent during the same time periods.

The asset value of land in agriculture is estimated at \$1.2 trillion. Further income streams from rent — cash or crop share — represents a major source of retirement revenue for a number of

individuals. Kastens and Dhuyvetter from Kansas State University estimate that government payments on a national basis boost land values by 18.3 percent. In some states, the contribution approaches or exceeds 40 percent. If adjustments are made to government support programs that affect land prices, those adjustments must be evaluated very carefully and completed over a considerable period of time.

If traditional farm policy is reformed, doing so will be very difficult. Most sectors have vested land and capital values based on historical payments. A majority of farmers' own personal retirement investments are tied up in the value of their land. The potential for a financial meltdown looms in the minds of some, especially in the banking community. Therefore, if movement is made away from these traditional payments, that movement will need to occur over a period of time. The speed of that movement will be determined by the progress made at the WTO negotiating table.

Rural Economy

Rural residents are dependent on rural economies. Averaged across all farms, 90 percent of farm family income comes from off-farm sources. Even large farming operations rely on off-farm income. USDA reports that farms with sales over \$250,000 derive over 30 percent of farm family income from off the farm. Vibrant rural economies are very important to farm families.

Rural America and production agriculture face two very different sets of problems. Some rural areas suffer from declining population base. However, in other areas, production agriculture is facing tremendous pressure from urban sprawl. Nearly every state faces this kind of dual problem and it is no different here in Minnesota.

Clearly, such problems don't lend themselves to a one-size-fits-all solution. However, some general approaches can be applied. We need to create a business climate that fosters entrepreneurship, encourages people to start a business and gives them the tools to compete in a global environment. Tax policy, environmental regulations, labor and health care policy and infrastructure are among those that come most quickly to mind. A well-educated and trained work force must be high on the list. These conditions should be the standard at all levels of government, regardless of rural or urban setting.

At the same time it should be recognized that the more rural parts of the country have special needs. This is particularly true in terms of infrastructure investment. There may be a need for greater investment by the federal government in outcomes-based rural infrastructure investment. There are clearly different transportation costs faced by agricultural goods produced in western Minnesota from those grown in eastern Pennsylvania. A resident of rural Minnesota, however, should have access to the same kind of Internet and telecommunications support, access to education and healthcare, and access to commerce and financing, as does a resident on the outskirts of Philadelphia, Pa.

Payments

The agriculture sector is a strong engine of trade, which provided for more than \$62 billion of agricultural exports in 2004. This was the equivalent of exporting output from one out of three acres harvested. More than 17 percent of the total American workforce produce, process and sell the nation's food and fiber. Farm program payments are a public investment in the nation's food, environmental and economic security. They help provide some measure of stability to the volatile business of food production, keeping Americans supplied with the safest and most affordable food in the world.

U.S. consumers reap many benefits from these payments, including a top quality, stable and economical food supply that takes less of the consumer's dollar than in any place else in the world. Funding better environmental practices benefits all of society through improved soil, water and air quality. Dollars received by farmers are reinvested in communities and businesses that would often wither without a stable local agricultural industry.

The planting flexibility provisions provided farmers in the 1996 Farm Bill are working. We should not consider reverting to provisions that would require farmers to plant specified program crops to receive support payments. I support continuing decoupled payments based upon cropping history rather than on current plantings.

There is broad support among all parties that the ad hoc income support provided prior to the 2002 Farm Bill needed to be incorporated into a "counter-cyclical" type payment that would supplement the support provided by marketing loans. However, unlike marketing loans, counter-cyclical payments are decoupled, similar to direct payments, because the payment is based on previous cropping histories.

The farm bill provides an adequate safety net to farmers and ranchers when commodity prices are low. When prices rise, the law functions without additional funding from the government via counter-cyclical payments or loan deficiency payments. The Congressional Budget Office (CBO) says the actual spending level for the bill is \$15 billion less, or 40 percent lower, in the first three fiscal years than what was projected when the bill became law.

Our federal farm program is based on production. Time and time again, this has proved to be the best manner for distributing assistance to the families most responsible for producing this nation's food and fiber. Farmers who produce more traditionally receive larger payments, but they also take larger risks and have significantly higher investments in their farms. When crop prices are depressed, no farm is immune to difficulty, especially those with greater risk. It is true that larger farm enterprises receive a larger percentage of total farm program payments than smaller ones. However, farm policy has always been production-based rather than socially based. Only if we want to allow someone in Washington to decide "winners and losers" should we move to a socially based policy.

Despite the seemingly big payments that are always highlighted in press reports and by various "think tanks," the vast majority of farm payments go to family farm operations. In addition to paying for machinery, seed and fertilizer, some of this money goes to pay household bills,

interest on farm loans and ordinary living expenses.

Looking at the "average" never tells the full story in any industry. This is certainly the case in agriculture. USDA data indicates a much different story about the distribution of farm payments from that told by some groups. In 2003, 654,175 "commercial" farms listed farming as their primary occupation. Fifty-eight percent of those operations received government payments in 2003.

Eighty-two percent of operations with sales between \$100,000 and \$250,000 in 2003 received some form of government support. Farm program payments are critical to this key segment of production agriculture. Artificial devices to limit farm program payments simply do not make economic or common sense.

Supply Management and Means Testing

Over the last 50 years, the United States has tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. We must not forget the lesson we learned 20 years ago. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 Farm Bill to stop set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the U.S. cut back production two million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

We also tried storing our way to prosperity. That did not work either. We tried having the Commodity Credit Corporation store grain in bins across the country. We tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. We must not implement a farmer-owned reserve or any federally controlled grain reserve with the exception of the existing, capped emergency commodity reserve.

Product Development, Marketing and Research

One significant way of improving farm income is to increase the investment by farmers in projects that will capture more value-added dollars. Such farmer-owned ventures provide for rural development, increase competition in the marketplace and increase farm income from the market.

A cornerstone of this vision is a major role for renewable fuels in our nation's energy policy. Agriculture can provide fuels that improve air quality and make the nation less dependent on foreign oil. Funding for projects and activities that take ethanol, biodiesel and renewable electricity to the next level are important. This would be a win for the environment, a win for rural communities in terms of new jobs and a win for farmers as it increases demand for their crops. Energy contribution improves the environment, decreases reliance on foreign oil, creates

jobs, dramatically increases agricultural markets, and decreases farm program costs as markets grow.

Conservation

As a crop and livestock producer I, like other farmers, make it a high priority to focus on conservation and implementing environmentally friendly practices. However, as a cattle producer, one of the biggest challenges I face is overly burdensome environmental regulations. Addressing these issues is not a matter of operation size, but rather, a matter of what is best for those in the industry.

Since their inception, conservation programs have continued to grow and evolve. The 2002 Farm Bill included more authorized funding for conservation than any other farm bill in history. Additionally, it is expected that programs like the Conservation Security Program (CSP), or programs applying conservation practices on "working lands," to become the key player of conservation titles, and possibly an important means of supporting farm income, in years to come. The CSP must be available to all producers, implemented as a nationwide program that is workable, and adequate funds must be appropriated to make it an effective program. Producers must receive assistance to help defray the cost of ongoing environmental improvements and regulations.

The Conservation Reserve Program (CRP) is another program I support. I believe it will lead to sustained and enhanced environmental benefits. With nearly 35 million acres currently in the program, the goal of reevaluating and possibly reenrolling nearly 28 million of those acres in contracts expiring between 2007 and 2010 presents significant challenges and unique opportunities. USDA should focus on creative approaches which stimulate program acreage providing greater environmental benefits, placing existing and potential new contract holders on an even and competitive basis and spending taxpayer dollars wisely.

In the short term, I believe the best approach for addressing expiring contracts is for the USDA to offer one-to-five-year extensions for existing contract holders. This strategy would allow the USDA to even out workload, while maintaining an ongoing competitive bidding process. This type of extension strategy could be staggered to allow four to five million acres into the program on an annual basis. By adopting such a strategy, USDA would be providing itself the opportunity to properly stagger and potentially reenroll expiring contracts over a longer timeframe. The goal would be to prevent the situation of exceptionally large blocks of CRP lands from expiring in the same year in the future. USDA would also allow itself additional time and opportunities to examine current CRP lands and potentially explore more targeted approaches in addressing how lands enrolled in the CRP can better address specific natural resource concerns.

It is important to reinforce the goal of getting the most benefit out of each CRP acre, and maintain fairness between existing contract holders and landowners who may wish to enroll lands in the future. Lands enrolled in the CRP should be those with the greatest need to address particular issues related to water quality, soil erosion, air quality and wildlife where results cannot be comparably achieved through conservation practices if the lands remained in production. Grazing lands should also be considered. As we are seeing this year right here in

Minnesota, dry weather can have an adverse effect on the amount of grazing land available for livestock. It is key that provisions which will allow managed grazing on CRP land be included when looking at future agriculture policy, especially during a time of drought when feed resources are limited.

The existing Environmental Quality Incentives Program (EQIP) natural resource priorities reflect and carry out the intent of the 2002 Farm Bill. Those priorities promote agricultural production and environmental quality as compatible goals. They optimize environmental benefits by – assisting producers in complying with local, state and national regulatory requirements concerning soil, water and air quality; wildlife habitat; and surface and ground water conservation. EQIP has provided welcomed assistance to producers in terms of addressing a variety of environmental and natural resource challenges.

WTO Trade Negotiations

World Trade negotiations are on the forefront of the minds of those involved in agriculture. They are also a key element in the determination of the extension of the current farm bill. It is essential that we negotiate a WTO agreement that accomplishes our objectives with respect to domestic supports and then modify our farm bill accordingly. This approach provides U.S. negotiators stronger leverage and avoids undertaking reforms that may not help us achieve our objectives. We are simply not far enough along in the WTO negotiations to make changes to the farm bill.

We need to eliminate market barriers and other limitations to market-based trade. In this transition period, American farmers and ranchers will ask for assistance to offset the negative effects here at home from other governments' trade distorting practices such as production-linked subsidies, high tariff barriers, export subsidies and differential export taxes.

I look toward the day when that head-to-head competition might occur. It is important that we focus on that day and what kinds of policies we will need to ensure a vital agricultural economy. Agriculture needs the economic policies in place that help make the United States a place where producers want to establish and expand their farms. This occurs through the right kinds of tax policies, flexible labor laws that reward productivity, excellent health care systems, infrastructure that allows ideas and products to flow, and a commonsense regulatory environment. In short, we need to ensure that the competitive advantage provided to us by our soils, climate and productive capacity is not thwarted by inappropriate government restraints.

Conclusion

Farmers worldwide are interested in making a fair wage for their labor and an adequate return on their investment. Farmers care about their family's future. They have a passion for the land and their livestock. Farmers everywhere have a love for agriculture and seek a fair solution to the many economic challenges we all face. We want to continue to produce a safe, affordable, abundant food supply while continuing to be good stewards of the land. This can only be accomplished through a cooperative effort by all parties involved in agriculture.

Mr. Chairman, Ranking Member Peterson, Congressman Gutknecht and members of the Committee, thank you for taking time to hear my prospective and the prospective of my fellow agriculture producers here today. Thank you also for your commitment to agriculture in the United States. I will take any questions you may have at this time.

Jul 18 06 04:05p

Borderline Ventures

5075972110

p. 1

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Peter Fzakken
Address: 138 121st Street, Garretson, SD 57030
Telephone: 507-597-3745
Organization you represent (if any): _____

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____
Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____
Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: Peter J. Fzakken

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Peter Lee Bakken
138 121st Street
Garretson, SD 57030
Resident of Rock County, Minnesota
507-597-3745

Peter Bakken along with his brother, Jay, operate BLAC-X Farms, Inc., a third generation family farm located in Beaver Creek Township, Rock County, Minnesota.

Their diversified farming operation includes a beef finishing operation where they finish approximately 2000 head of cattle per year and a 200 head cow/calf operation. In addition, the Bakkens raise 600 acres of corn, 350 acres of soybeans, 150 acres of alfalfa and 50 acres of small grain, with 400 acres of their operation dedicated to grass and grazing.

Peter Bakken currently serves as Rock County Farm Bureau president, director and past treasurer of Rock and Nobles County Cattlemen's Association, supervisor and past chairman of Beaver Creek Township board. Peter is also currently serving on the Minnesota Farm Bureau growth committee and is a past District 3 representative on the Minnesota Farm Bureau Young Farmers and Ranchers Committee. He has also held various positions on his church board.